

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **May 18, 2006 Audit Committee Meeting**

In Attendance:

Jon Strinden via conference call  
Ron Leingang  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick  
John Mongeon  
Pat Brown

The meeting was called to order at 11:35 a.m.

**I. May 18, 2006 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. Ms. Kinsella indicated she did not include the Goals and Objectives Report for 2006 as it has been updated but will be revised due to the staffing situation in Accounting and the Information Technology Replacement Project. Ms. Kinsella conveyed she will include the revised report in August. There continues to be a shortage of staff in Accounting, specifically in Deferred Compensation. It is unknown when the Deferred Compensation position will be filled. Mr. Heick has been doing the daily critical functions for this position. He will continue in this capacity until the position is filled. The Group Insurance area is back to normal, however, there may be additional assistance needed in the future. It was also brought to the Audit Committee's attention that the Flex Comp reconciliation is being turned over to the accounting division. Also, staff received notification from BCBS that they have recalculated the interest on the Interest Calculation Report. This resulted in an additional \$149,348.00 for the 2003-2005 period, and \$34,518.00 for the 2005-2007 period, for a total increase in interest of \$183,866.00. Mr. Collins explained that due to the inconsistency found by the internal auditors, staff questioned BCBS

why they changed their methodology for computing the interest. BCBS explained that the contract stated the 5 year treasury rate should be 60 days out, and not 60 months. Staff explained that the method used was what staff was told to do by BCBS from the beginning and inquired why the change now when the wording of the contract is still the same as the beginning. BCBS reviewed how it was done and agreed to follow the same method that has always been used, but indicated they disagreed with the method. Mr. Collins conveyed this will be an item that will be addressed during the 2007-2009 contract review.

- B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials. Ms. Kinsella indicated that progress has been made on 3 of the findings, work has been completed on 4 findings and there are 19 outstanding findings. Mr. Strinden inquired if there were any findings that should be addressed before others since there are so many of them and so little resources. Staff will review the report and determine if the findings can be prioritized so that those that are more important can be completed sooner.
- C. Annual Internal Audit Plan for 2006 – The Annual Audit Plan for 2006 was drafted for the Audit Committee's review and approval and was included in the Audit Committee materials. Once the document is approved, the final copy will need to be signed by Mr. Strinden and Ms. Kinsella. A few changes were made due to the IT project and staffing. The hours per area were not estimated and performance measures were not set forth because it is unknown how much the Internal Audit division will be needed in the coming months. By general consensus, the audit committee approved the 2006 Internal Audit Annual Audit Plan. Mr. Strinden will sign the cover and send to the NDPERS office.

### **III. Administrative**

- A. Performance Evaluation – Ms. Kinsella's performance evaluation will be reviewed in the next couple of weeks. Mr. Collins will mail the Performance Evaluation form to Mr. Leingang since he could not open the document. Mr. Collins will be in contact with the Audit Committee members so this can be finished by mid-June.
- B. Audit Committee Charter Review – A year ago a matrix was developed to use to evaluate the Audit committee's performance in meeting their objectives. At that time the Audit Committee decided it would like to conduct the evaluation on a calendar basis. Included with the Audit Committee materials was the matrix for the 2005 activity. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.
- C. Internal Audit Charter Review – Ms. Kinsella indicated since she developed the matrix for the Audit Committee Charter, she thought she would use the same format for reviewing the Internal Audit Charter. Included with the Audit Committee materials was the matrix for the 2005 calendar year. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.

#### IV. Miscellaneous

- A. Brady Martz – Mr. John Mongeon and Mr. Pat Brown appeared before the Audit Committee to present their planned audit scope and approach. They reviewed the staff that will be on the audit team, the type of audit they will do, the audit scope and objectives, the timing of the audit, testing of compliance and internal controls, managements responsibilities, new Statement of Auditing Standards (SAS) and new GASB Standards.
- B. Audit Committee Meeting - The next audit committee meeting will be held on Wednesday, August 16, 2006 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- C. Continuing Education - Ms. Kinsella and Mr. Heick attended a 2 day seminar on Audit Project Management in Bismarck. An overview of the seminar topics was included in the Audit mmittee materials. The seminar provided 15 continuing education credits. Staff felt it was an excellent seminar.
- D. Publications – A copy of the March 2006 issue of Tone at the Top and articles from the Government Finance Review were included in the audit committee materials. Ms. Schiermeister expressed an interest in having management learn more about internal control. The article “Understanding Internal Control” did an excellent job clarifying that controls are not just for reliable financial reporting, but also addresses effectiveness and efficiency of operations and legal and regulatory compliance.
- E. Other – Mr. Strinden proposed the idea of having a third Audit Committee member who is outside of the agency. Mr. Leingang mentioned that the State Investment Board has an Audit Committee member from MDU and when he asked her if she would be willing to serve on the NDPERS Audit Committee she was agreeable. This would require a change to the Audit Committee Charter. Ms. Kinsella will revise the wording and send to Mr. Strinden and Mr. Leingang via email for their approval. Once approved, the revised Audit Committee charter will go to the NDPERS Board for their approval in June. We would invite the new member to meet the board members in July and then she would be attending the August Audit Committee meeting.

The meeting adjourned at 12:20 p.m.